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Egypt

Cotton and Products

Annual

2005

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Report Highlights:
In Egypt, cotton area in MY 2005/06 is expected to decrease by 12 percent and total production is expected to drop 10 percent to 250,000 MT. Egyptian cotton exports in MY 2005/06 are expected to increase 33 percent over MY 2004/05. New regulations issued by the Egyptian Plant Quarantine Office now allow cotton imports from any region within the United States.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Unscheduled Report
Cairo [EG1]
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PSD Table						
Country:	**Egypt**					
Commodity:	**Cotton**					
		2004		**2005**		**2006**
	Old	New	Old	New	Old	New
Market Year Begin		**08/2004**		**08/2005**		**08/2006**
Area Planted	315000	307000	27000	270000	0	252000
Area Harvested	315000	307000	270000	270000	0	252000
Beginning Stocks	1000	1000	14000	14000	0	24000
Production	274000	280000	246000	250000	0	233300
Imports	120000	90000	120000	130000	0	120000
TOTAL SUPPLY	395000	**371000**	380000	**394000**	0	**377300**
Exports	150000	130000	140000	140000	0	135000
USE Dom. Consumption	225000	225000	227000	228000	0	228000
Loss Dom. Consumption	2000	2000	2000	2000	0	2000
TOTAL Dom. Consumption	227000	227000	229000	230000	0	230000
Ending Stocks	18000	14000	11000	24000	0	12300
TOTAL DISTRIBUTION	395000	**371000**	380000	**394000**	0	**377300**

Area Planted and Production

In MY 2005/06 total cotton area is expected to be 643,000 feddans (270,000 HA), compared to 730,000 feddans (307,000 HA) in MY 2004/2005. This substantial decrease is mainly attributed to the decrease in local market prices for cotton in the previous season. The prolonged price increases for local corn and rice influenced farmers' decisions to plant corn rather than cotton, particularly in Upper Egypt. Industry sources estimate that cotton production will drop to 250,000 MT (5 million Kentars), or about 10 percent lower than MY 2004/2005 cotton production.

In MY 2005/2006, approximately 27 percent of the total Egyptian cotton crop is expected to be extra long staple (ELS) varieties (staple lengths of 1 3/8 inches and above). This represents a two percent increase over the MY 2004/2005, level. This is mainly due to the increased demand for ELS cotton varieties by the export-driven modern spinning mills. Major ELS varieties are Giza 45, Giza 70 and Giza 88. These three varieties are considered to be among the finest cottons produced in the world. The remainder of the crop is comprised of long staple (LS) varieties (staple lengths of 1/4 inches): Giza 80, Giza 83, Giza 85, Giza 86, Giza 89 and Giza 90. Every year the government specifies certain varieties of cotton for each growing region, and farmers are obligated to cultivate those varieties according to their respective areas. The Ministry of Agriculture continues to be the sole distributor of cottonseed. In order to encourage early cultivation to conserve water, the Egyptian government continues to provide some assistance to cotton farmers who cultivate cotton before March 31 (not many farmers cultivate cotton before March 31) to help with the cost of production such as land preparation, pesticide and planting seeds. It is estimated that the government will provide cotton farmers total support equivalent to

LE 280 per feddan in MY 2004/2005 (one feddan equals approximately one acre).

Overall, cotton lint yields for the MY 2004/2005 crop averaged 7.6 Kentar lint cotton per feddan (1 Kentar= 50 Kg) compared to 7.3 kentar per feddan in MY 2003/2004. Yields for the MY 2005/2006 crop are expected to be nearly the same as MY 2004/2005 provided that weather conditions remain normal for the rest of the growing season.

Consumption and Utilization

The consumption of local cotton has been declining in the past few years. The downward trend is attributed mainly to the higher price of domestic cotton and the financial difficulties that most textile companies face. However, total local consumption in MY 2004/2005 is expected to increase slightly above MY 2003/2004 level and total 225,000 MT, a result of the reduced price of Egyptian cotton. Approximately 60 percent of total cotton consumption is imported cotton mainly from Greece and Sudan. Imported cotton is used in the production of course count fabrics (Ne 20/1 to Ne 30/1), which are used for shirts, knitwear and toweling. Textile and garment exporters also import fabric from cheaper sources such as Syria, Pakistan and India under the temporary admission system of imports, which allow manufacturers to import their inputs free of duties provided that they export the end products, in order to be competitive in international markets.

For MY 2005/2006, further increase in total consumption is projected at 228,000 MT. This is attributed to an expected increase in total imports, which could reach 120,000 MT as compared to 90,000 MT in MT 2004/2005. Also, the recently signed Qualified Industrial Zone (QIZ) trade agreement between Egypt, the United States and Israel is expected to have a positive impact on cotton imports. This agreement will allow factories in three geographical zones to export their production including textile products, to the U.S market duty free. Three qualified industrial zones have been selected by the Egyptian government and approved by the U.S. government. The selected zones are Greater Cairo, Alexandria and Suez Canal area. The agreement states that 35 percent of any product must be produced in one of the QIZs in order to gain duty free status. Egypt and Israel have agreed that at least 11.7 percent of the 35 percent requirement will come from each country.

Prices

The nominal level of farm prices set by the government for all varieties is calculated based on indicative cost of production plus profit margin. Market prices for the 2004/05 season were reported at LE 590 for Giza 86, LE 620 for Giza 70, LE 610 for Giza 88 and LE 550 for Giza 89 varieties. This is compared to LE 1000, LE 1100, LE 1040 and LE 600, respectively, for the same varieties in the 2003/04 season. As a result, imports for 2005/06 are projected to increase by 33 percent in order to satisfy local mills' requirements, which are expected to increase due to tight local supply coupled with an anticipated increase in textile exports to the United States. Industry experts do not foresee a government announcement of a subsidy program for the 2004/05 cotton crop. It is expected that the government will rather import lower priced cotton and subsidize it for government mills. Beginning with the 2004/2005 cotton crop, Alexandria Cotton Exporters Association (ALCOTEXA) no longer set export prices for Egyptian cotton. Export prices are now a private matter between the Egyptian exporter and his buyer. Also, domestic cotton prices will be determined according to supply and demand.

Private sector companies continue to assume control of ALCOTEXA. Six members of the 26 member board represent public sector companies, and the remaining are from private sector companies. This will continue until the next board election, scheduled for October 2005.

Government Policy

The Government of Egypt (GOE) continues to privatize certain public sector companies, albeit slowly. To date, of the 31 government textile companies that were scheduled to be privatized by the year 2000, only five companies have been privatized. They are Unirab, Alexandria Spinning and Weaving, KABO, Arabia Ginning and the Nile Ginning Company. A South Korean textile group contracted with the GOE to lease and manage the textile company ESCO for ten years. Similar arrangements with other Egyptian textile groups are currently underway for three textile companies (Delta Spinning and Weaving company, Shipen EL- Kom Spinning and Weaving Company and Kom Hamada Spinning and Weaving company). The process of privatizing the textile sector has been extremely difficult for the government. Most of the targeted companies are in poor financial condition and thus unattractive to potential investors. Problems include large bank debts, antiquated equipment and over employment. The problem of what to do with redundant workers is not just an economic question, but also a political and social issue.

Given the short supply of cotton in the country, Cotton & Textile Industries committee members decided to withhold the exportation of Egyptian long and medium long varieties (Giza 80, Giza 83, Giza 90, Giza 85 and Giza 89). These varieties are being sold to local mills only.

In 2005, the government did not offer any support program for local mills. This was due to the low prices that mills paid to cotton producers.

Trade

In MY 2004/2005, the private sector companies' share of total export contracts increased to 62 percent from 51 percent in 2003/2004. This increase reflected the ability to export cotton at flexible prices as the international market changes. Public sector cotton trading companies, on the other hands, decided to hold their cotton for the local mills due to the shortage in cotton supply. Egypt's cotton exports in MY 2004/05, are estimated at 130,000 MT, compared to 75,000 MT in MY 2003/04. Exports during the 2004/05 season increased substantially due to the increase in both production and imports. In addition, there was no restriction on cotton exports from the private sector. In order to promote the sale of Egyptian cotton, ALCOTEXA and the Ministry of Foreign Trade developed an Egyptian Cotton logo. The logo is owned by ALCOTEXA and the Ministry of Foreign Trade. The logo is marketed by "Cotton Egypt" the Fiber Promotions Department of ALCOTEXA. The Logo is to be used on products made from 100 percent Egyptian Barbadense cotton. The logo is licensed in Egypt to cotton growers that follow specific growing instructions. Cotton traders, cotton grinners, cotton yarn spinners, fabric producers, cut and saw manufacturers, and retailers both inside Egypt and around the world can apply for the license.

In MY 2004/2005, Egypt imported a total of 90,000 MT of short staple cotton, mostly from

Greece at reported price $ 0.5775 per LB C&F including fumigation at the loading port. Egypt also imported Acalla cotton from Sudan at a reported price of LE 4000 per kentar. Imports for MY 2005/2006 are expected to increase to 140,000 MT due to a decrease in production and increasing demand for cotton for use by local mills. Until July 2004, imports of U.S cotton were permitted only from California and Arizona as they were declared free from boll weevil. However, a team of Egyptian scientists visited the United States and determined that the ginning and baling process in practice in the United States was adequate to eliminate any possible insect contaminations. U.S. cotton from any source is allowed to be imported into Egypt under the following Egyptian plant quarantine regulations:

- Cotton import shall only be confined to countries free from the American boll weevil (Anthonomus grandis). No lint imports shall be contracted except after the approval of Central Administration of Plant Quarantine CAPQ). (Note: The U.S is now treated as if it was boll weevil free as a result of the Egyptian scientists visit mentioned above)

- In countries where no vacuum fumigation is applied, the shipment shall be fumigated under plastic sheets at the port of shipment at a dose of 100 gm/m 3/36 hours, to be followed by ventilation for 12 hours. Cotton bales under treatment abroad shall be stacked at a height of one bale. They shall be vacuum re-fumigated at the port of arrival using methyl bromide at a dose of 128 gm/m3, for three hours under 66 cm of continuous pressure at 20 C if temperature is below 20C the dose must be increased to 144 gm/m3.

- In countries where vacuum fumigation is applied the shipment shall not be re-fumigated under plastic sheet at the ports of arrival in Egypt.

- Bales must be free from cotton seeds or parts thereof.

- Containers and vessels must be checked for cleanliness and freedom from plant waste especially cotton seeds. Containers must be also intact and tightly closed.

Export Trade Matrix

Country:	**Egypt**	Units:	
Commodity:	**Cotton**		
Time period:	**2003**		**2004**
Exports for			
U.S.	3,490	U.S.	5,535
Others		Others	
Switzerland	11,789	India	34,673
India	8,797	Pakistan	23,074
Italy	8,741	Switzerland	19,592
Pakistan	5,875	China	9,488
S.Korea	5,271	Italy	6,281
Japan	3,373	Turkey	5,397
Thailand	3,307	S.Koria	3,402
Turkey	2,917	Japan	3,086
Germany	2,637	Emirates	2,677
Portugal	2,181	Thailand	2,431
Total for Others	54888		110101
Others not listed	16,622		14,364
Grand Total	75000		130000

Stocks

With increased cotton crop production and increased imports in MY 2004/05, stocks are expected to reach 14,000 MT as compared to 1,000 MT in MY 2003/04. Despite, the expected decrease in production in 2005/06, further increase in stocks is projected at 24,000 MT due to the expected increase in imports coupled with stagnation in consumption.

Factors Affecting US Exports

Until a few years ago, most Egyptian cotton imports originated from the U.S. (California and Arizona), as the GOE considered only these two states to be free of boll weevil. Egypt requires that all imported cotton be grown in areas free of pests (e.g., boll weevil) and diseases that are, or could be harmful to domestic production. However, Egypt changed its import requirements and began allowing imports from other suppliers including Greece, Syria, Sudan and Ethiopia. This reduced the price competitiveness of U.S cotton mainly due to the freight differential. However, with the new regulations offer an opportunity for U.S. cotton exports to regain a competitive position. In addition, the availability of the GSM-102 export credit program and other export credit programs may help increase the competitiveness of U.S. cotton exports to Egypt.